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C O N F I D E N T I A L SECTION 01 OF 02 CONAKRY 000584

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SUBJECT: CNDD REVOKES RUSAL MINING CONCESSION

REF: CONAKRY 00475

Classified By: ECONOFF BRIANA WARNER FOR REASONS 1.4 (B) AND (D)

¶1. (U) Summary: After a tumultuous four months of threats and conciliatory liaisons, the GOG revoked United Company Rusal's (Rusal) controversial Friguia mine and refinery concession on September 10. Arguing that the company unlawfully acquired its contract in 2006, a Guinean court ruled that the refinery is now exclusively owned by the GOG. With the nullification of Rusal's contract, the CNDD is sending a clear message that they are willing and able to cancel international investment contracts that they consider flawed. END SUMMARY.

TURMOIL IN FRIA

¶2. (U) In April 2006, Rusal was granted full ownership of the Friguia facility by Conte's regime. According to media outlets and contacts within the mining industry, Rusal paid \$19 million USD for the acquisition, despite its estimated value of nearly \$247 million. Furthermore, the contract has always been viewed with some suspicion because it was granted directly by President Conte and was not validated by the National Assembly as required by law. With the capacity to produce 640,000 tons of alumina and 1.9 million tons of bauxite annually, Friguia was a substantial asset for the mining giant. The company also has two smaller mining interests in the country including a management stake in Compagnie des Bauxites de Kindia (CBK) and a share in Compagnie Guineenne de Genie (CGG).

¶3. (U) Soon after seizing power in December 2008, the CNDD questioned the validity of Rusal's Friguia contract, claiming that the concession, negotiated under the former regime, was obtained illegally due to its opaque ratification procedure. They also argued that the disparity between Rusal's payment and the contract's value indicated corruption within the contract negotiation process.

LEGAL PROCEEDINGS BEGIN

¶4. (U) In April 2009, Dadis publicly demanded that the Ministry of Justice consider legal action over Rusal's 2006 acquisition. At the time, Rusal argued that it "purchased Friguia in full compliance with Guinean legislation and considers it to be (our) legitimate property," but litigation against the company proceeded in the Police Court of Kaloum.

(COMMENT: The litigation was ordered just as the Nigerian government confronted Rusal about similar allegations in Nigeria. The company also began negotiations for a massive, company-wide debt restructuring program involving \$7.3 billion USD in April. END COMMENT.)

15. (U) In July, Rusal decreased its production at its Friguia mine from 52,000 to 24,000 tons a month. According to company press releases, the decrease was related to plummeting commodity prices and company budgeting issues. On August 5, Rusal CEO Oleg Derpaska came to Conakry and apparently met with several CNDD officials, including Dadis, to discuss the company's holdings in Guinea. On August 15, Dadis asked the Ministry of Justice to withdraw legal proceedings against the company and production levels resumed at 54,000 tons a month.

16. (C) Despite supposed presidential support, the legal proceedings against Rusal continued. On September 4, Rusal announced that it would temporarily suspend production from its Friguia mine. Reportedly, the government prohibited a company ship carrying raw bauxite exports from leaving port on September 3, due to nonpayment of an environmental tax. Though Rusal claims that it stopped production at its mine as a direct result of its export block, sources within the mining sector told Econoff that the company was having trouble meeting production bills. After a six day closure, the company apparently paid the \$500,000 USD tax, and reopened their mine on September 9. That same day, the GOG announced that it would launch an audit to assess the

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operations of three mining companies in Guinea including AngloGold Ashanti, Kenor, and UC Rusal.

17. (U) Just two days later, the court ruled that Rusal obtained the contract illegally and that the property should be returned to the Government of Guinea immediately. Rusal was given ten days to appeal the decision, which it ultimately did on September 20.

COMMENT

18. (C) Rusal's relations with the CNDD have been turbulent since the December coup. Despite this, contacts within the mining sector said that Rusal officials were very surprised by the GOG's revocation of the Friguia mine. Apparently, many Rusal executives believed that Dadis, meeting with Derpaska had ensured better relations with the CNDD. Over the years, Rusal was embroiled in multiple scandals in Guinea involving workers riots, caustic soda spills, and accusations of corruption. The fact that the CNDD would unilaterally cancel a contract however, has sent shock waves through a mining community already weary of CNDD interference in the sector.

19. (C) The future of the mine and thousands of workers is currently in question, as the mine now belongs to the GOG. The GOG claims that it will put the project up for a transparent international bidding process, but it is likely that the GOG will try to sell the mine quickly to supplement their weak budgetary capacity. If the lack of transparency with the CNDD's past bidding processes are any indication (reftel), the contract will likely be sold to a close ally of Dadis or whichever company is willing to pay the highest bribe - a little ironic given the circumstances under which the Rusal contract was granted. END COMMENT.
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